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ABSTRACT

Simulation of changes through 1988-89 in the distribution of general school aid (GSA) in Illinois demonstrated implications of a dual state economy for educational finance. Agricultural and heavy manufacturing areas were found to have suffered loss of tax revenue while service and light industry areas experienced increased revenue. Downstate manufacturing cities and rural districts were projected to receive a larger share of GSA while other areas of the state would receive a lesser share. School districts serving rural agricultural areas and smaller towns would receive 80% of the gain. Major conclusions of the simulation were that poor economic performance of agriculture and manufacturing would limit fiscal capacity of many school districts and eventually cause redistributions of state aid. Questions were raised about the ability of school districts to finance already legislated reforms without increases in GSA and about the use of school consolidation to increase fiscal capacity. The foundation for school financial reform was seen to be linkages between economic performance, property tax base, and local fiscal capacity. Maps illustrate change in personal income, manufacturing, and real estate assessments; tables and figures present state financial balances, farmland assessments, estimated change in GSA, and growth in income and sales tax receipts. (LFL)

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Series E. Agricultural Economics

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David L. Chicoine and Suzanne W. Langston*

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You will find enclosed "Structural Changes in Illinois Agriculture and Industry: Impact on Illinois School Finance," by David L. Chicoine and Suzanne Langston which was presented at the education study held at Millikin University September 19, 1985. If further copies are needed, they can be obtained from the Department of Agricultural Economics at the University of Illinois.

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Structural Changes in Illinois Agriculture and Industry: Impact on Illinois School Finance

Executive Summary

The economic changes underway in Illinois since the 1981-82 recession have included the coexistence of sectors, like agriculture and traditional heavy manufacturing that are performing poorly, and sectors like services and high-tech related activities that are vigorous and growing. Because the structure of local economies are not uniform throughout the state, this "dual economy" phenomena favors some regions and areas over others. These conditions create a different environment for the financing of public schools in the 1980s compared to the 1970s when all communities were experiencing positive economic change, but at different rates.

This study investigates the implications of the emergence of a dual economy in Illinois for the financing of public schools under current policies. Changing economic conditions impact school finance directly through changes in the property tax base and indirectly through the State's general state aid (GSA) distribution formula. Using estimated property tax bases at the county level, GSA was simulated through the 1988-89 school year under the assumption that only the equalized assessed valuation of school districts changed.

The simulated GSA distributions indicated that downstate manufacturing dominated cities would increase their share of GSA, service and light, high-tech industry dominated cities would receive a lower share and the other more rural districts downstate would increase their share of GSA. The share of GSA going to the Chicago area would be reduced. These simulations assumed constant GSA appropriations at the 1985-86 level (excluding the supplemental funds for elementary school districts). Under the current operations of the GSA procedures, the projected changes in property tax bases across Illinois associated with economic change would reallocate $53.35 million in GSA from the Chicago area to downstate between 1985-86 and 1988-89. Most of the gain downstate (80%) is simulated to benefit districts serving the more rural agricultural areas and smaller towns while the City of Chicago is simulated to experience 67% of the Chicago area loss. The downstate areas benefiting from the redistribution mechanics of GSA under current procedures are, as expected, the districts in communities with the most economic readjustment underway causing reductions in the taxable value of real property.

Of course, under the assumptions of the simulation, areas losing GSA are gaining local property tax receipts from a strengthening property tax base.

Policy Implications. A major conclusion of the simulation is that the poor economic performance of Illinois agriculture and the permanent loss of manufacturing jobs and earnings will limit the local fiscal capacity of many Illinois school districts and eventually cause absolute redistributions

of state aid under current policies. Large fund balances and past prudent fiscal management will temper the immediacy of the fiscal stress in some districts. These changes raise questions about the ease with which school districts can finance already legislated reforms without increases in GSA appropriations.

With the current GSA formula sunset for 1987, there is an opportunity to develop a better understanding of the linkages between economic performance, the property tax base and local fiscal capacity of Illinois school districts. Using analyses and the background studies of the Illinois School Finance Project as the base for policy in 1986 and 1987 should be done with caution because of the structural changes in local economies that have occurred in recent years. For many areas long run school district fiscal capacity will not be enhanced with consolidation.

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Structural Changes in Illinois Agriculture and Industry: Impact on Illinois School Finance

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Major educational reforms highlighted Illinois General Assembly activity in 1985. All of the implications of the reform legislation will not be completely understood for some time. Included among the legislated reforms were actions on school organization, student and teacher performance, and curriculum and community accountability reports. Finance measures centered on a $200 million increase in general state aid, some incentives to encourage vertical consolidation and a hold harmless provision protecting the state funds of elementary school districts. The current state school aid formula is now sunset for August 1, 1987 which should provide time for the evaluation of alternative approaches to raising and allocating state aid to local districts. Reorganization studies are to be conducted in all areas of the state.

The attention public education is receiving in Illinois is consistent with the policy focus education has received in other states and nationally. Several national studies (e.g. A Nation at Risk) and Illinois studies (e.g. Illinois Project for School Reform) have offered their prescriptions for improving schooling. It can be argued that to some extent the attention given education reform after more than a decade of parsimony and indifference is "fadism." However, some incentive for reform is related to the rediscovery of the link between public investment in human capital through education and economic growth and development (e.g. Federal Reserve Bank of Atlanta 1984; Schultz 1981). In some states finance and performance reforms are aimed at catching-up to the competition in terms of education programs and spending while in others reforms are a part of state government policy initiatives to foster economic recovery and encourage necessary structural change to regain a comparative advantage in a competitive world economy.

Educational reforms come at the end of a decade that has been a painful period for the Illinois economy and the economies of all midwestern states. These troubled times give reason to question the fiscal capacity and political will of many states to finance the scope of reforms envisioned in most reports and studies without major fundamental school finance policy changes (Geske and Hoke 1985).

In Illinois and other midwest states the loss of manufacturing jobs and the weakened condition of agriculture are a source of considerable hardship. Growth in the service sectors and in high-tech industries provide some consolation and has contributed to the beginnings of economic recovery. Unfortunately, most of the reasons for the fundamental changes that characterize the economies of Illinois and neighboring states are not easily reversed, if at all, by policies available to state and local governments. Examples of some fundamental changes are the balance of trade, the loss of international market shares and the strength of the dollar and

unfavorable exchange rates (Garcia and Anderson 1986). The challenge is to understand the consequences of the emerging economic order and adjust state and local policies to take into account the realities of the new world economy (Bowman and McQuown 1983).

Economies undergoing structural change and technological upgrading are often characterized by the coexistence of 1) vigorous economic activity and vitality and 2) poor performance, dislocation and unemployment (Yankelovich et al. 1985). To some extent, Illinois exhibits the symptoms of a "dual economy" — the simultaneous coexistence of a) sectors that are vigorous and growing and b) sectors that are in economic recession. Because the structure of economies are not uniform throughout the state, the dual economy phenomena favors some regions and communities over others.

These conditions create a different environment for the financing of public services and in particular for the financing of local schools compared to the time when all regions and most communities were experiencing positive economic change, but perhaps at different rates. The study reported in this paper investigates the implications of the emergence of a dual economy in Illinois for the financing of local schools under current policies. The analyses presented should be of some value in the months ahead as alternatives to the current school aid system are evaluated. Unfortunately, many issues are not addressed in the paper and the preliminary nature of analyses is only suggestive of potential implications. However, the study does provide some evidence on the implications of regional variation in economic conditions across the state for financing local schools and the need to invest in developing a better understanding of the economies of local communities as a prerequisite to implementing school finance reforms in 1987.

In the next section some evidence on the regional and sector changes in Illinois' economy are highlighted. The purpose is not to present nauseating detail on economic changes in Illinois, but to present some evidence on change that supports the notion of a "dual economy." Some regions and some sectors are facing economic adjustments that will continue through the century (e.g. agriculture). The third part of the paper develops the bridge from the economic evidence to the capacity of local areas to finance public services by analyzing changes in the real property tax base across the state. Based on estimates of assessed valuation, the implications of economic change on the level and distribution of general state aid (GSA) to local school districts are presented. For this purpose, the state school aid formula was simulated using pedestrian forecasts of assessed valuation through assessment year 1986. These assessments will be the base for GSA through school year 1988-89. The final section summarizes the results, develops policy implications and suggests some alternative directions or avenues that appear prudent in the months ahead as the design of school finance reform is debated.

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The State of the State

Beginning in the late 1970s, Illinois lagged behind the national economic growth rate during a time when the U.S. economy was growing slowly by historical standards. The State's economy has evolved from a structure historically more stable through the business cycle compared to the rest of the country until now it is comparatively more volatile. The unemployment rate in Illinois for many years below that of the nation is now and has been for the last several years considerably higher than the rest of the country (about 9% verses 7% for August, 1985). In the early 1970s per capita personal income in the state was 15% above the national average. The most recent data (1984) indicate it has fallen to 8% above the national average and is expected to continue to fall as growth in income in Illinois lags national growth rates. While Illinois remains a relatively wealthy economy, the state has clearly experienced a relative decline compared to much of the rest of the nation (Giertz 1985).

The causes for poor performance of the Illinois economy are complex and not well understood. The performance of the economy, in part, is related to the national and worldwide adjustment and realignment of economic activities. The decline of agriculture and older heavy industrial sectors, which have been the backbone of the economies in Illinois and throughout the midwest, has taken a heavy toll. For example, between 1979 and 1984 Illinois lost 286,100 manufacturing jobs (a decline of 22.5%). The growth in service sector employment (an estimated 124,700 or 13.5%) was not enough to off set the loss resulting in a 5.1% net decline in the number of nonfarm jobs in the state between 1979 and 1984 (Northeast-Midwest Congressional Coalition 1985). During this period earnings from durable manufactured goods rose 29.5% for the country but only 3.7% in Illinois. These trends show that recovery from the 1981-82 recession, which hit Illinois and the midwest relatively harder, is lagging.

A combination of high interest rates, low commodity prices, weak foreign demand and falling asset values has resulted in serious financial stress in agriculture in Illinois and throughout the midwest. Estimates suggest that up to one-third of the commercial sized family farms in Illinois are experiencing serious financial difficulty and in all likelihood will not survive and remain in farming (Lins and Burk 1985). This represents approximately 10,000 to 15,000 commercial Illinois family farms. The two to three percent normal historical rate of farm decline from a total farm population of over 90,000 will be masked by the expected attrition of commercial sized family farms in the next two to three years. During fiscal year 1985 total farm numbers in Illinois dropped 4,000 (4.3%).

Expectedly, the poor farm economy is driving down the value of agricultural assets. For example, from April, 1984 to April, 1985 market values on Illinois farmland declined a reported 27%. This comes on top of decline in 1984 and in 1983. Continued decline is expected (Scott 1985).

While farmers and heavy manufacturing industries are bearing the brunt of the direct financial difficulties, the major adjustments that are

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underway have implications for all sectors that interact with these basic industries. For example, the recession in agriculture is having far reaching impacts on the support and service sectors dependent on farming (Ginger et al. 1985). In Iowa, nine rural banks closed in the first six months of 1985, the First Bank System of Minneapolis put 28 of its rural banks in the Great Plains up for sale and the Farm Credit System is asking for a massive federal government bail-out. The farm machinery industry is 25 percent over capacity given demand expectations from U.S. farmers and the loss of foreign market shares. Implement dealership closures are now frequent. If current farm income conditions are maintained, which is expected, farm loan losses of $20-$25 billion are forecast nationally with an impact on total employment of 200,000+ lost jobs by the early 1990s (Womack 1985).

Regional Economic Variation

Few areas within Illinois reflect the structure that characterizes the State's economy. Transportation, market access, labor and natural resource differences cause the economies of regions to differ. Economic change and restructuring and recession recovery, then, will impact different communities differently, based on the composition of the local economic base.

Income Change. Some evidence on the effects of economic changes across Illinois is presented in Map 1 which shows the percent change in personal income by county between 1982 and 1983. Unfortunately, 1983 data are the most current county level income data available and do not yet reflect much recovery from the 1981-82 downturn. Personal income in Illinois grew 3% in 1983 and recovered somewhat with a 11.6% growth rate in 1984.

Understanding changes in personal income is critical to financing education. Not only is income a widely accepted measure of ability-to-pay for public services, research has consistently shown education to be a normal good with higher income communities demanding more local schooling and spending more on education, other things equal. Research suggests that among Illinois counties, for every $100 increase (decrease) in per capita income, per capita school spending will increase (decrease) by about $4.50 (Chicoine and Walzer 1985; also McMahon 1970). The implication is that if incomes remain depressed, expectations would be for demand to shift downward and education spending in lower income communities to drop. This is a perverse outcome for state level policy because of the positive relationship between the educational level of the labor force and economic growth rates. Evaluating variation among the states in the 1970s, Sander (1985) found a 10 percent increase in the schooling level increased employment growth by 29 to 32 percent during the decade.

Between 1982 and 1983, 42 Illinois counties experienced a decline in income of from one percent to five percent. Alternatively, 13 counties had income growth rates exceeding five percent. Twenty three counties experienced a change between +1 and -1 percent. The rate of change in personal income in most counties during this period evidenced a downward trend reflecting the overall weak conditions in the State's economy.

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The pattern of change is important. Between 1982 and 1983, weakest incomes were in the central and northwestern counties. Most counties from the Indiana border to the Iowa and Missouri borders in the center part of the state experienced no income change or a decline in income. The strongest areas in terms of income growth were the Chicago and St Louis metropolitan counties and a group of counties in southeastern and southcentral Illinois.

Additional information is needed to determine the reasons for the wide range of personal income change, but differences in economic base play a fundamental role in explaining the changes. More current data may present a different pattern of change and show the performance of areas through the early stages of the recovery, but the point is that changes in economic conditions evidenced by aggregate state data will not capture changes experienced in all communities but be a composite of these regional changes. Expectations would be for counties that showed the strongest resiliency in 1982-83 to experience the quickest recovery in 1984 and 1985.

Changes in Employment and Farmland Prices. Changes in personal income among Illinois counties are related to the underlying conditions in basic economic activities. Manufacturing employment has declined in Illinois as the restructuring of the State's economy continues. Because of poor farm incomes, asset values in farming have been dropping. The pattern of change in manufacturing employment from 1979 through 1982 and in the price of farmland from 1980 through 1983 across Illinois are presented in Map 2 and Map 3, respectively. Again, the county level employment data do not reflect much of the recovery, but state data suggest manufacturing is lagging the rebound manufacturing is experiencing nationally (e.g. 3.7% 1984 growth in manufacturing earnings in Illinois verses 29.5% growth nationally).

The loss of manufacturing jobs has not been even across the state; 43 counties experienced declines of from one to 20 percent while 34 counties lost between 21 and 50 percent of their manufacturing jobs between 1979 and 1982. Generally, the heaviest manufacturing job loss is in the counties reporting the greatest decline in personal income. Interestingly, these same counties also generally show the greatest decline in the market value of farmland (Map 3). As with income change, several central southern Illinois counties evidence trends opposite those of the rest of the state.

Agricultural asset devaluation is most severe in 38 Illinois counties. Farmland prices in these counties dropped by over 20 percent between 1980 and 1983. The pattern of asset devaluation suggests the central parts of Illinois are comparatively more stressed. Data from eight counties showed higher average sale prices on farmland in 1983 compared to prices reported in 1980. In some of these counties the amount of land sold in recent years is comparatively small suggesting a simple comparison of averages needs to be interpreted cautiously.

Comparing income changes with changes in manufacturing employment and farmland prices provides one indication of the underlying structure of local

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economies. For example, counties with some manufacturing job loss and no income drop or an income increase likely depend on nonmanufacturing basic economic activities. Similarly, counties with a diverse local economy will experience less stress from poor conditions on the farm compared to areas with a narrow agricultural economic base. The participation of local economies in the recovery from the 1981-82 downturn is difficult to specify without more recent county income and employment data.

Changing economic conditions will directly impact school finance through the property tax base. Declining assessed values reduce local revenues unless tax rates are increased and, because of the mechanics of the GSA resource equalizer formula, will cause more state funds to flow to the relatively poorer districts, but only after a time lag. On the other hand, areas less dependent on manufacturing and farming, that generally suffered less in 1981-82 and are showing stronger signs of recovery, will likely experience relatively stronger local tax bases, more local tax capacity and eventually a reduction in GSA under current policy. This reduction could be not only relative, but absolute under current procedures and funding levels. Unfortunately, the relationship between shifting economic conditions and the property tax base is complex and not well studied.

The property tax base in the state declined for the first time in decades in 1983 (Taxpayers' Federation of Illinois 1984). Regional economic changes and, particularly, the stress experienced in manufacturing and agriculture suggest there will be some areas in Illinois with tax base growth while assessed values in other areas will decline, depending on the structure of the local economy and the strength of the recovery since 1983.

The State's Fiscal Health

A combination of economic growth and tax policy change resulted in a General Fund balance for Illinois state government at the end of fiscal year 1985 of $479 million. This is the highest end-of-year balance in the history of the General Funds and contrasts sharply with the negative preliminary outlook for 1985 (Comptroller 1985a). Presented in Table 1 are the end-of-year balances for fiscal years 1970 through 1985. The crisis condition in 1983 of a $110 million balance required tax increases including a temporary income tax increases temporary. The record setting balance in 1985 is significant due to the fact that for the first time in history both General Fund revenues and expenditures exceeded $10 billion. The sound position reflected in the June, 1985 end-of-month balance resulted from holding expenditures close to estimated levels while revenues exceeded expectations (6.3% above revenues in fiscal 1984).[1]

The pattern of change in the major sources of state General Fund revenues are presented in Figure 1. For individual income taxes, receipts in 1985 were down 7.2% from 1984. This reflects the impact of the temporary rate increase in 1984. The impact of the recession on the income tax base is evident in 1983 where revenues showed little growth over 1982 receipts. Even more obvious is the impact of the weakened economy on corporate income tax receipt changes. Receipts declined beginning in 1981 and continued to drop through 1983 with economic recovery pushing receipts up in 1984.

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Receipts from state income taxes were $3.458 billion in fiscal 1985 with about 85% being paid by individual income taxpayers.

In fiscal 1985, sales tax receipt increased 18.2% over 1984 receipts and totaled $3.120 billion. This net growth reflects the increase in the tax rate from 4% to 5%, growth in retail sales associated with economic recovery, losses from the elimination of food and drugs from the base (final 2 cents) and some accounting delays causing 1985 receipts to be overstated and the 1984 receipts understated. The 1981-82 recession is evident with sales tax receipts declining $46 million in 1981, showing no increase in 1982, and only a small increase in fiscal 1983.

The healthy fiscal condition of state government in Illinois reflects, in part, the relatively stronger economic conditions in the state as a whole. The degree to which areas in the state are participating in the improving economy is uncertain without additional study and more current data. However, past regional changes suggest recovery is not uniform and structural changes in the Illinois economy will favor some areas over others. While national forecasts indicate manufacturing employment growth in the remainder of this century will more then offset job losses of the past decade, Illinois is expected to receive little benefit from the manufacturing revival. Similarly, the depressed conditions in agriculture hold little promise of reversal in the next few years. Thus, areas in Illinois economically dependent on these two sectors are likely to show only limited economic strength in the months ahead.

Economic Change and General State Aid to Education

The .6% statewide decline in taxable property values in 1983 masked the much more dramatic drop in assessed values experienced in several counties. Of course, the capacity to finance schools and other local public services is dependent on the value of taxable property which, in turn, is closely related to local economic conditions. Under current GSA policy relatively more aid will eventually flow to districts with relatively lower assessed values reducing the aid payments to districts with more local taxing capacity. With assessments on a general decline, districts benefiting most from the current GSA formula will be those where assessments drop the fastest.

Contributing Factors

Three factors contribute to the decline in property tax assessments in Illinois. First was the increase in the homestead exemption from $3,000 to $3,500 effective in 1983. Second is the poor performance of the economy resulting in declines in farm assessments and industrial and commercial property values. Third, the residential real estate markets were weakened by the recession with new construction dropping significantly. Although the poor economy was placing downward pressure on real estate markets early in the decade, lags in the assessment process delayed the impact on tax bases

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until 1983. In a similar manner the impact of any economic recovery on assessed values also will be lagged.

While the first factor was policy related, the latter two were more directly related to the poor performance of the Illinois economy. Property tax base changes in any community or school district in the state will be related to changes in the local economy. For example, assessments increased 1.3% in Cook County and 2.4% in DuPage County in 1983 where the economic downturn was relatively less severe (Taxpayers' Federation of Illinois 1984; Chicoine 1985).

In addition to poor economic conditions impacting property values, areas with little or no population growth are adding few new properties to the tax rolls. Declines in the manufacturing sector are having a significant impact on the property tax base of areas with traditionally strong industrial based economies. For example, Peoria County reported assessed value declines of .6% for 1982-83, 6.0% for 1982-83, 4.4% for 1983-84 and expect a drop of 6.3% for 1984-85. The 1985 county equalized assessed value (used to compute taxes payable in 1986) is expected to be slightly below the 1980 tax base. The assessed value of industrial property in Peoria County declined 10% between 1983 and 1984 and is expected to drop another 16% between 1984 and 1985. While Peoria County may be a somewhat extreme case, other counties with economies heavily dependent on agriculture and traditional manufacturing will show similar trends.

Changes in farmland assessments from 1982 through 1986 are shown in Table 2. The average per acre assessments for 1982 through 1984 are actual averages taken from assessment abstracts. The averages for 1985 and 1986 are estimates and reflect changes in certified assessed values and the constraints of the 1984 limit law restricting county farmland assessments from changing by more than 10% from any one assessment year to the next. The limit law went into effect with 1984 assessments. Because of data lags and the mechanics of averaging, farmland assessments reflect economic conditions centered four years prior to the assessment year (five years prior to the year taxes are paid). Thus, 1985 assessments are based on data averaged over 1979 through 1983 and are centered on conditions in 1981.

Assessments for 1985 and 1986, especially for the better soils, were up slightly from the respective prior year because of the price strengthening impacts of the PIK program and the drought in 1983. Averages need to be viewed with caution when concern is with a particular farm or a particular school district. But the county averages in Table 2 provide a general view of the trends in the farm tax base. However, the slight strengthening in farmland assessments in 1985 and 1986 is not expected to last as more recent data are incorporated into 1987 assessments. Declining farmland assessments from 1987 through 1990 are highly likely.

Assessed Values for 1986

To provide some understanding of the impact of changing economic conditions on Illinois general state aid (GSA), 1985 and 1986 estimates of

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property tax bases for all Illinois counties were developed following rather pedestrian procedures. The farmland assessment estimates, on a per acre basis, are in Table 2. Nonfarm values were crudely determined by looking at assessment changes in 1982 and 1983, available 1984 data and projecting 1985 and 1986 assessments. The results of this procedure are shown in Map 4 for 1984-1985. The largest group of counties is expected to experience declining farm and nonfarm assessments through assessment year 1986 (taxes payable in 1987). The second largest group of counties is those with slightly higher or constant farm assessments in 1985 and lower or constant nonfarm assessed values. Northeastern Illinois, two St. Louis area counties plus McLean and Champaign counties and a few other scattered counties are estimated to experience higher nonfarm assessments in 1985 and 1986.

Using the crude county estimates of assessment change, the property tax bases of all Illinois school districts are estimated for each year through 1986 by applying expected county level changes to the tax base in each district. This, of course, introduces another element of inaccuracy into the analyses. However, the crude method of approximating district assessed values is expected to impact the magnitude of subsequent analyses, but not the direction of change.

Estimated Changes in GSA 1985-86 through 1988-89

Assessments in 1983 (used for computing taxes payable in 1984) are used in GSA calculations for 1985-86. By estimating assessments for 1984, 1985 and 1986, GSA was simulated through the 1988-89 school year to provide some indication of the impact of the economic changes occurring in Illinois on 1) the distribution (or redistribution) of GSA associated with these changes and 2) the impact of these changes on state aid appropriations and foundation levels.

Tables 3, 4 and 5 contain the results of simulating the Illinois GSA system through 1988-89 holding everything constant at the 1985-86 school year level except the assessed values of the districts which were replaces with the assessment estimates described above. Table 3 presents the results holding GSA appropriations constant at the 1985-86 level ($1,679,953,253) excluding the supplemental funds for elementary school districts. Alternatively, Table 4 summarizes simulations assuming the foundation level is constant at the 1985-86 level ($1,951.94 per pupil). Table 5 summarizes the simulated shifts in dollars while the Tables 3 and 4 present summaries of state share and change expressed as percents.

Attention will be focused on the simulation holding appropriations at the current level (Table 3). The results presented in Table 4 are generally quite similar. It is interesting to note, however, that even with declining assessments in most of Illinois, increased assessed values in certain areas (e.g. Chicago metro area) would require lower GSA appropriations in each year, holding the foundation level at the current nominal level (Table 4).

The results of the simulation in Table 3 are presented for two groups of selected downstate cities, all large downstate cities, other downstate districts and the Chicago area. The selected city groupings reflect a

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generalized categorization according to type of economy i.e. more traditional manufacturing verses services. The more traditional manufacturing cities are listed first followed by communities with large service sectors. The other downstate districts include districts with jurisdiction over small towns and rural farm oriented regions.

No surprises are evident in the simulations, given estimated changes in tax bases. Generally, downstate manufacturing dominated cities would increase their share of GSA, service and light, high-tech industry dominated cities would receive a lower share and the other more rural areas would increase their share of GSA (from 29.42% to 31.95%). The share of GSA going to the Chicago area would be reduced (58.46% in 1985-86 to 55.28% in 1988-89).

The rates of change in GSA vary for the selected downstate cities from 5.54% increase in Moline to 5.62% decrease in Champaign between 1986-87 and 1987-88. For this period, the aid level in rural areas would increase about 3% while the Chicago region would experience about a 2% reduction in GSA. The nominal foundation level in 1988-89 is simulated at $1971.28 or about $20 above the current level.

The simulated redistribution of GSA associated with changing economic conditions across the state and constant appropriations shows a $53.35 million gain for downstate at the expense of the Chicago area (Table 5). This is cumulative change summing the changes for each of the years in the simulation. Most of the gain downstate (80%) benefits districts in the other category which included the more rural areas of the state, while the City of Chicago is simulated to experience 67% of the Chicago area loss. The downstate areas benefiting most from the redistribution of GSA are, as expected, the districts in communities with the most economic adjustment underway causing reductions in taxable values. Rockford would receive $2.79 million more, Peoria $2.64 million more, Decatur $1.52 million more and Rock Island $1.12 million more, for example.

Of course, under the assumptions of the simulation, areas losing GSA are gaining local property tax receipts from increases in assessed valuation while areas gaining GSA have less property tax revenue. The redistribution of GSA is a result of relative gains and losses in estimated local property tax wealth. During the period simulated economic conditions resulted in absolute as well as relative changes in property tax wealth. In prior years any GSA redistribution was likely the result of some areas growing at a faster rate compared to other areas with all districts experiencing more taxing capacity because of higher assessments. The dual economy phenomena combines economic growth in some areas and sectors with economic adjustment, lagged recovery and depressed conditions in other regions and sectors. Under these circumstances relatively more redistribution will occur.

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Summary, Policy Implications and Outlook

The purpose of the simulation of changes in the distribution of GSA was to demonstrate the likely implications of the changing economy in Illinois for financing education. Background evidence was presented on the regional differences in past economic changes that provide the framework for financing Illinois schools for the rest of this century.

Generally, areas heavily dependent, historically, on agriculture and heavy manufacturing have been and are experiencing more economic stress compared to areas more relent on other basic economic activities. The economic recovery and some state tax policy changes has put state government in Illinois in a relatively better financial position. The rate of recovery and economic restructuring among areas in Illinois is uncertain. However, because of the financial crisis in farming and the limited recovery in manufacturing, the immediate outlook for some Illinois communities is significantly less optimistic than the state as a whole.

Weak economic conditions are a main factor underlying the weakening property tax base in most Illinois counties. Of course, changes in assessed values will depend on the health of the supporting economy. Lower assessments mean a reduced capacity to finance schools and other local services. In response to lower assessments, the GSA resource equalizer as it currently exists will increase the relative share of state funds flowing to these districts. Based on crude estimates of assessed valuations through 1986, GSA receipts were simulated through the 1988-89 school year for Illinois school districts. In general, the agricultural and heavy manufacturing dependent areas of the state gained GSA at the expense of the more economically diverse and service based areas with most of the reallocation coming from the Chicago area and going to rural downstate districts. Despite an estimated loss in assessed value in most regions throughout the simulation period, the limited estimated growth in taxable property was sufficient for the 1985-86 foundation level to be maintained in nominal terms with less GSA appropriations. Much of the estimated property tax growth in the state was in the Chicago area.

Policy Implications. Several policy implications can be drawn. First, the poor economic conditions in agriculture and the permanent loss of manufacturing jobs and earnings will limit the local fiscal capacity of many Illinois school districts through 1990. This prospect should be one base for education reorganization and finance policy. The stress faced by individual districts in these areas will be tempered by many things. Significant on this list will be the operating reserves or savings of districts. Spending down large operating fund balances will allow balanced budgets when current expenditures exceed current receipts.

Second, increases in state GSA appropriations of a modest sum could offset the estimated loss in local fiscal capacity. However, there will be limited ability to finance increased expenditures, such as for higher salaries without higher property tax rates, more GSA, a draw down on operating balances or some combination of these alternatives. Third,

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financing already legislated reforms will be difficult in light of reduced local taxing capacity. Finally, for many areas school district fiscal capacity will not be enhanced with consolidation.

Outlook. The analyses presented in this paper fall short on many accounts. Little has been invested in developing a basic understanding of regional economic changes and the implications of these changes for producing, providing and financing educational services. The results of this study certainly can be refined and needs to be viewed with caution because of several shortcomings. Relating economic changes to the strength of the property tax is much more complex then the procedures used for this simulation. The pedestrian methodologies employed likely over estimate the property tax base in many counties and fail to capture the micro conditions that characterize individual districts. Needed is a more extensive investigation of the linkages between economic conditions, the property tax base and local fiscal capacity as a base for understanding the implications of economic change and restructuring on education finance. The structure and well-being of the economies of most regions in the state are dramatically different then when the background studies for the Illinois School Finance Project were conducted, for example. Using those analyses as the base for policy in 1986 and 1987 without updating and projecting economic conditions for school districts should be done with extreme caution.

The conditions in Illinois agriculture are not likely to improve to the extent that general directions now prevailing will be reversed. At best the pace of change will slow. The impact of structural change that Illinois agriculture is and will be going through will not be restricted to the confines of farm fences. Rural institutions, like schools, will not be insulated from changes of this magnitude. Declining local fiscal capacity is only one aspect of the adjustment. Forming school reform policy in the absence of an attempt to comprehend the implications of these adjustments is somewhat shortsighted. Similar logic applies to the need to comprehend some of the structural changes underway in other economic sectors as a foundation for school finance reform.

Comprehending the implications of changing economic conditions will not be simple. Effective leadership at all levels and in the private and public sectors is required. But the time to begin is now and never before has there been greater opportunities for creative leadership to shape the future of Illinois education and the financing of public schools.

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Endnotes

1. More recent end-of-the month balances show the impact of a slow down in revenue growth and higher expenditures. The end-of-the month balance for November 1985 was $208 million, the lowest month-end balance since December, 1983 (Comptroller 1985b).

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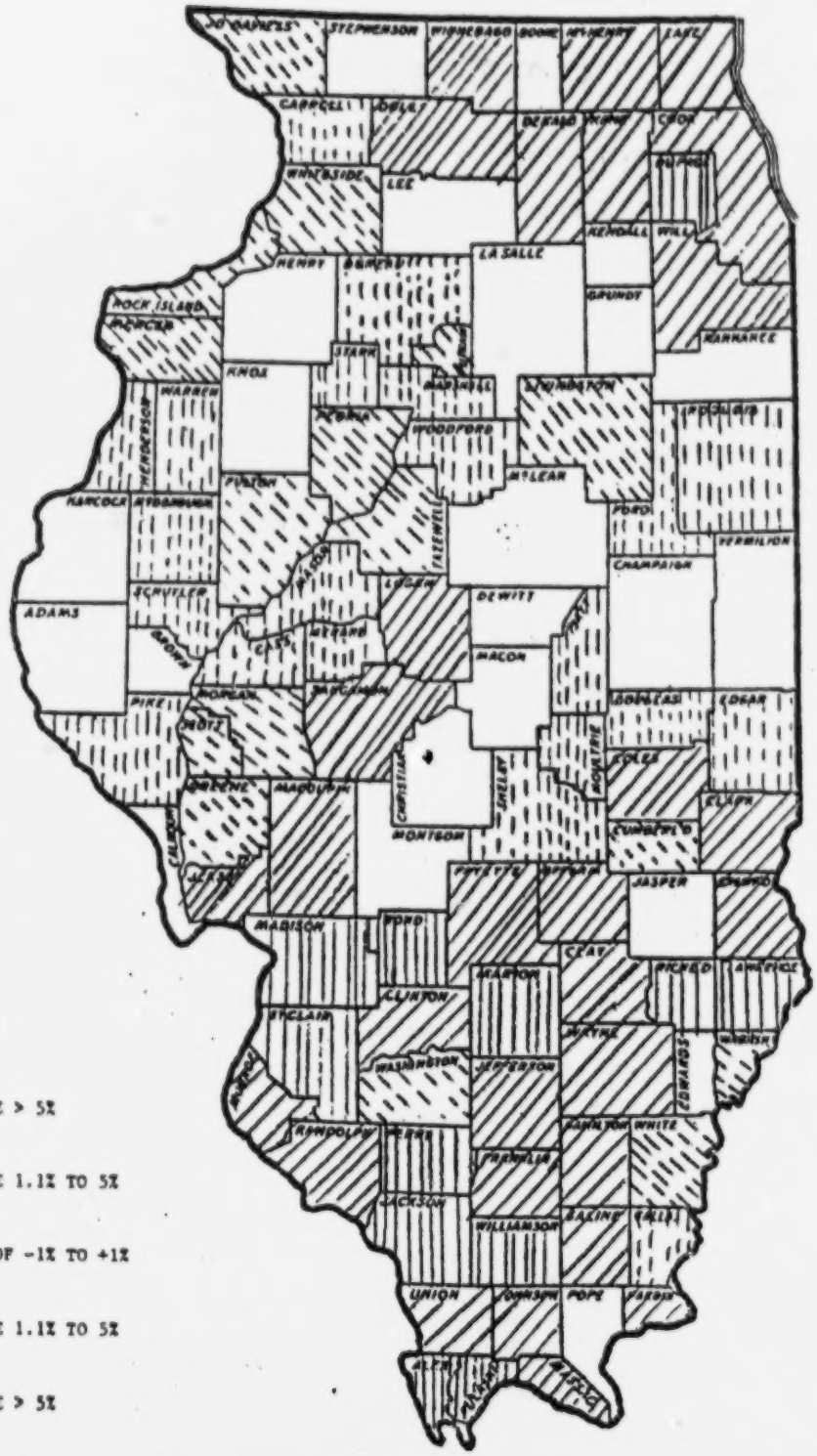
Map 1. PERSONAL INCOME CHANGE,
1982 - 1983



(State average 3 %)
(Chicago metro area 5 %)

Source: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C.

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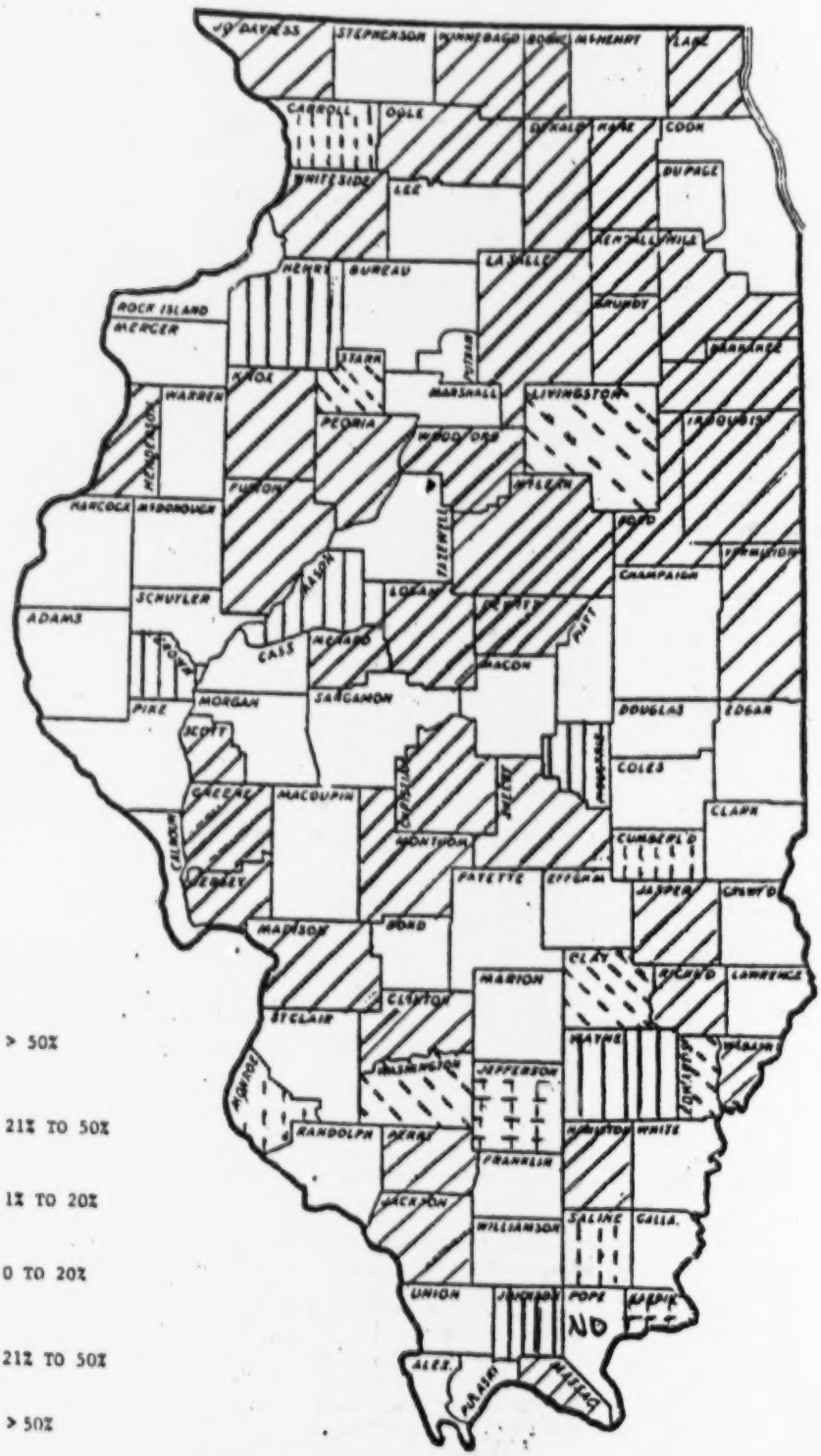
Map 2. MANUFACTURING EMPLOYMENT CHANGE, 1979-1982.



LEGEND:

- INCREASE > 50%
- INCREASE 21% TO 50%
- INCREASE 1% TO 20%
- DECREASE 0 TO 20%
- DECREASE 21% TO 50%
- DECREASE > 50%

Source: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C.

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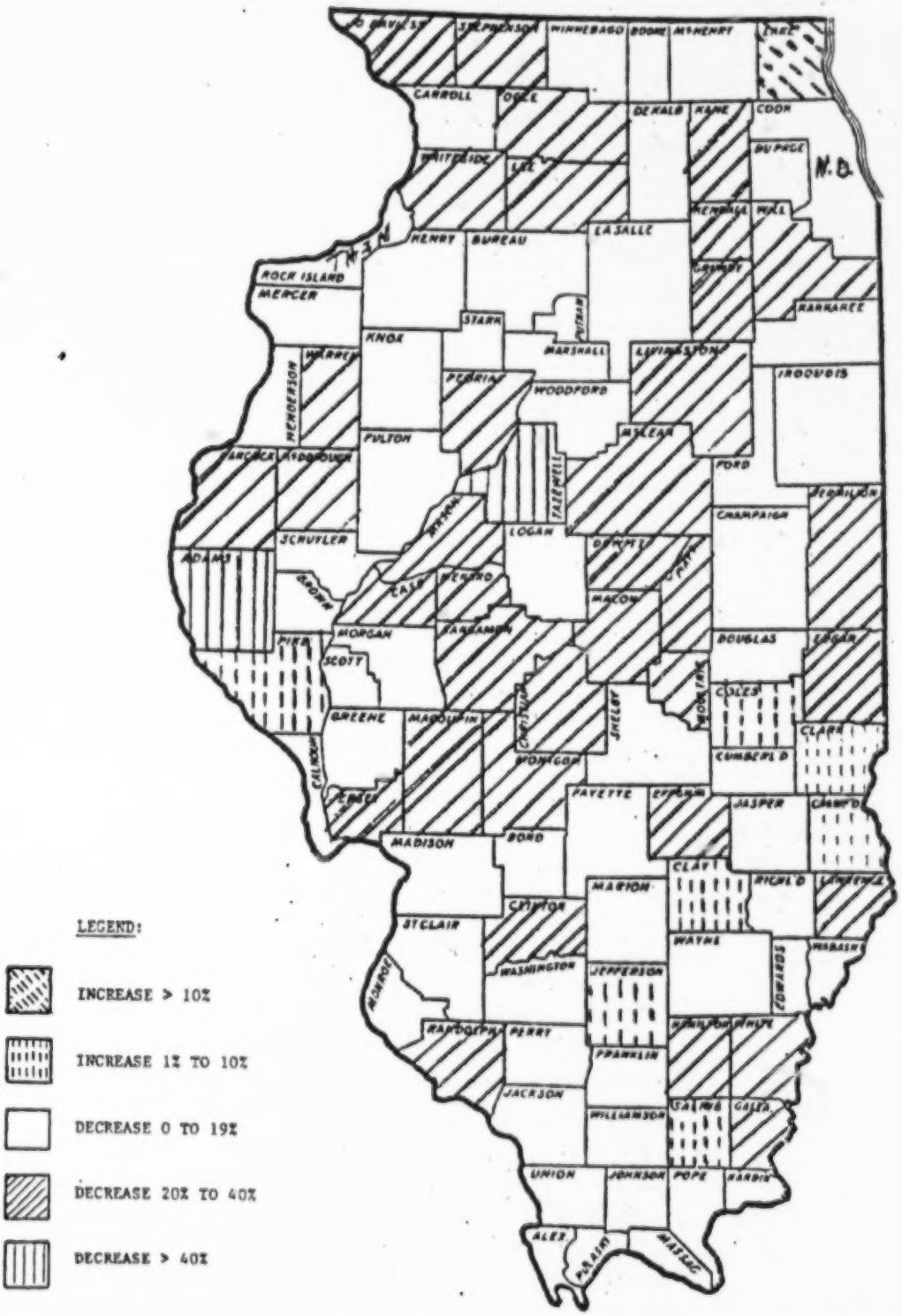
Map 3. CHANGE IN PRICE OF FARMLAND, 1980 TO 1983



Source: Compiled from Real Estate Sales Declarations reported to the Illinois Department of Revenue, Springfield, IL.

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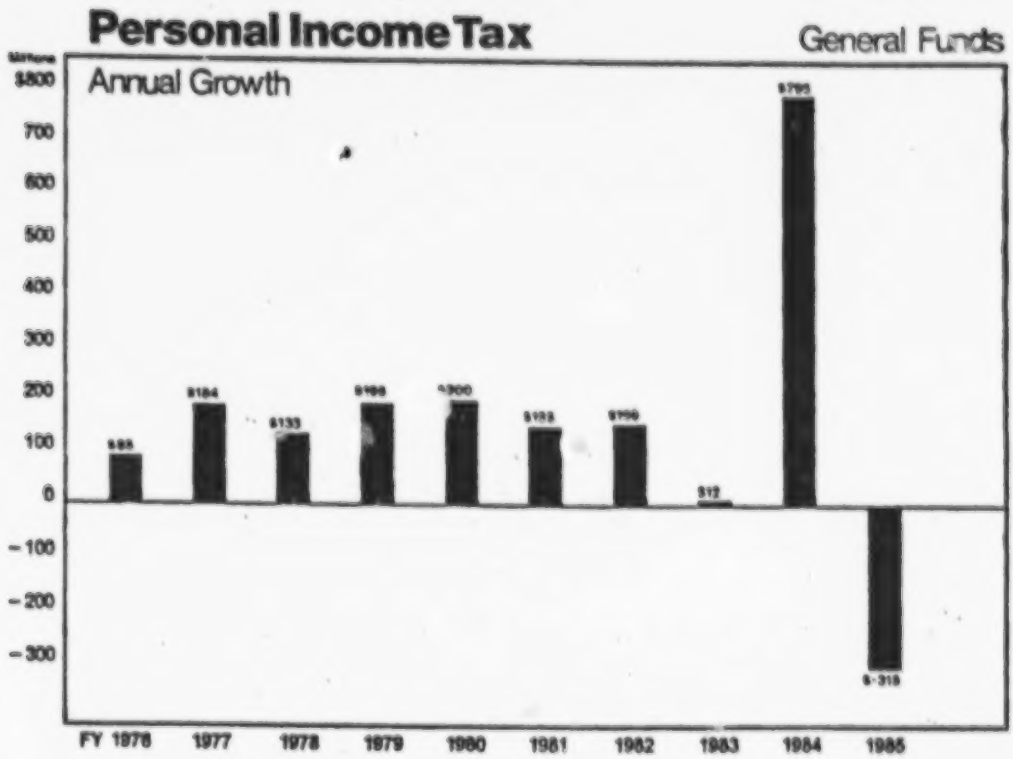
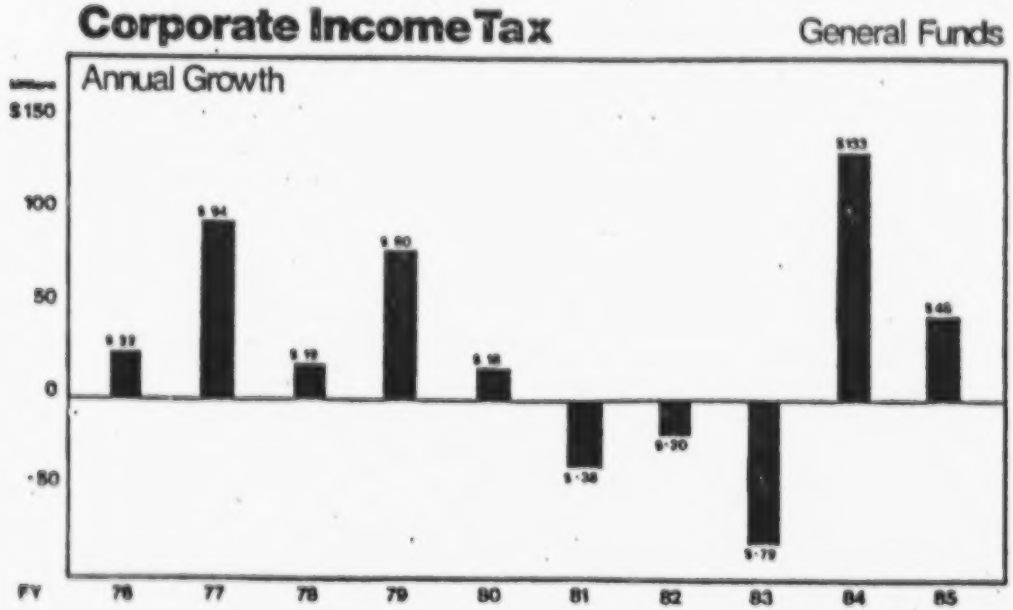
Table 1. Illinois State Government Fiscal Health: General Fund End-of-Year Balances, FY 70-FY 85.

Fiscal Year	June 30 Balance (millions)
1970	$269
1971	220
1972	299
1973	387
1974	453
1975	315
1976	126
1977	52
1978	86
1979	390
1980	390
1981	197
1982	187
1983	110
1984	217
1985	479

Source: Roland W. Burris, Comptroller, Monthly Fiscal Report, Springfield, IL, June 1985, p. 11.

Figure 1. Annual Growth in Income and Sales Tax Receipts, 1976 - 1985.





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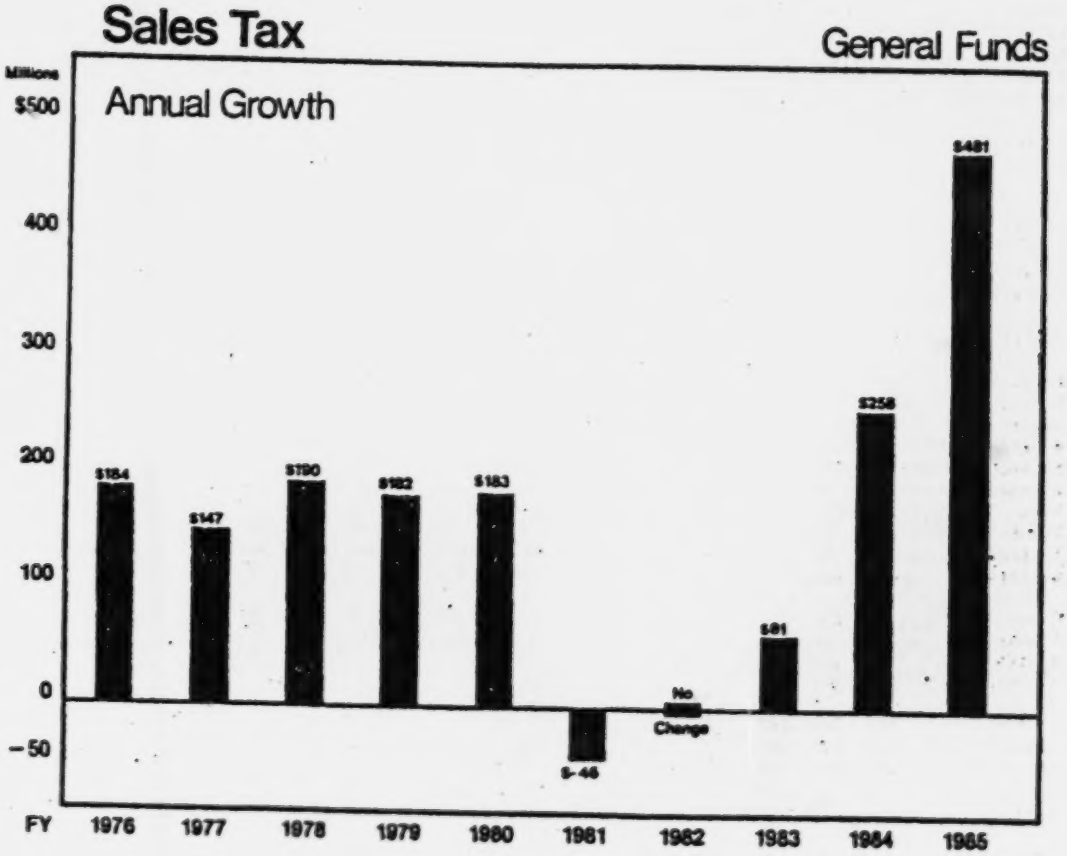
Source: Comptroller, Roland W. Burris, 1985. Monthly Fiscal Report-

Figure 1. (continued)



Source: Comptroller, Roland W. Burris, 1985. Monthly Fiscal Report-June, Springfield, IL: 19-21.

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Table 2. County Average Farmland Assessments, 1982-1986.
($ per acre)

County	ASSESSMENT YEAR 1982	1983	1984	1985*	1986*
Adams	162	162	146	142	145
Alexander	102	50	55	60	66
Bond	122	101	91	82	75
Boone	275	261	235	212	191
Brown	106	95	105	115	120
Bureau	267	238	231	250	259
Calhoun	99	94	85	76	76
Carroll	238	238	213	201	207
Cass	179	171	154	153	158
Champaign	401	378	340	306	314
Christian	331	306	275	248	252
Clark	125	111	100	95	94
Clay	113	99	89	80	72
Clinton	119	104	94	85	77
Coles	308	314	282	254	260
Cook	492	399	-	-	-
Crawford	122	122	109	98	90
Cumberland	142	132	119	123	123
DeKalb	375	350	315	300	311
DeWitt	408	407	366	329	325
Douglas	407	392	352	317	326
DuPage	303	274	236	212	193
Edgar	322	305	275	252	260
Edwards	147	147	132	119	107
Effingham	137	122	110	99	89
Fayette	132	90	92	95	95
Ford	292	266	239	216	221
Franklin	96	94	85*	77	69
Fulton	160	150	136	146	136
Gallatin	147	138	139	148	151
Green	196	190	175	189	195
Grundy	291	267	240	242	249
Hamilton	114	86	80	72	65
Hancock	218	204	183	184	189
Hardin	60	53	48*	43	39
Henderson	221	209	188	194	200
Henry	232	209	207	224	230
Iroquois	289	266	239	215	202
Jackson	73	76	68	61	55
Jasper	158	142	127	114	103
Jefferson	123	122	107	96	86
Jersey	160	154	139	138	141
JoDaviess	125	91	91	95	95
Johnson	66	66	59	53	48
Kane	295	270	242	218	221
Kankakee	246	222	199	179	170
Kendall	330	306	280	252	252
Knox	286	278	251	226	223
Lake	168	143	143	150	152
LaSalle	325	297	267	267	275

County	ASSESSMENT YEAR 1982	1983	1984	1985*	1986*
Lawrence	170	116	106	111	111
Lee	293	291	262	254	261
Livingston	288	275	246	234	240
Logan	356	331	298	296	307
McDonough	377	257	238	221	228
McHenry	268	244	220	198	181
McLean	380	357	321	317	327
Macon	419	399	386	347	345
Macoupin	178	173	168	182	186
Madison	227	227	205	185	166
Marion	130	96	86	77	69
Marshall	297	279	251	237	245
Mason	160	163	158	142	128
Massac	115	114	104	94	85
Menard	303	301	270	243	249
Mercer	195	181	200	220	229
Monroe	152	132	121	109	98
Montgomery	196	180	162	147	149
Morgan	269	259	233	230	237
Moultrie	415	398	358	328	339
Ogle	272	256	230	207	201
Peoria	220	220	196	176	171
Perry	107	95	85	77	69
Piatt	407	386	347	323	334
Pike	178	179	163	154	157
Pope	66	58	53	48	43
Pulaski	128	96	86	77	69
Putnam	246	230	205	210	217
Randolph	148	131	118	106	95
Richland	150	98	88	79	71
Rock Island	218	218	196	176	179
St. Clair	150	137	124	116	117
Saline	112	107	97	87	78
Sangamon	369	350	313	292	302
Schuyler	136	121	109	108	109
Scott	169	160	159	171	175
Shelby	195	179	161	150	152
Stark	290	257	247	268	277
Stephenson	168	147	162	178	196
Tazewell	315	295	265	246	234
Union	106	103	94	85	77
Vermillion	289	264	238	242	249
Wabash	149	123	135	149	156
Warren	355	360	321	300	310
Washington	109	95	85	77	69
Wayne	131	122	110	99	89
White	148	147	133	120	108
Whiteside	252	251	226	203	193
Will	262	211	196	176	171
Williamson	94	95	83	75	67
Winnebago	213	192	173	156	149
Woodford	345	345	311	280	262

* estimated

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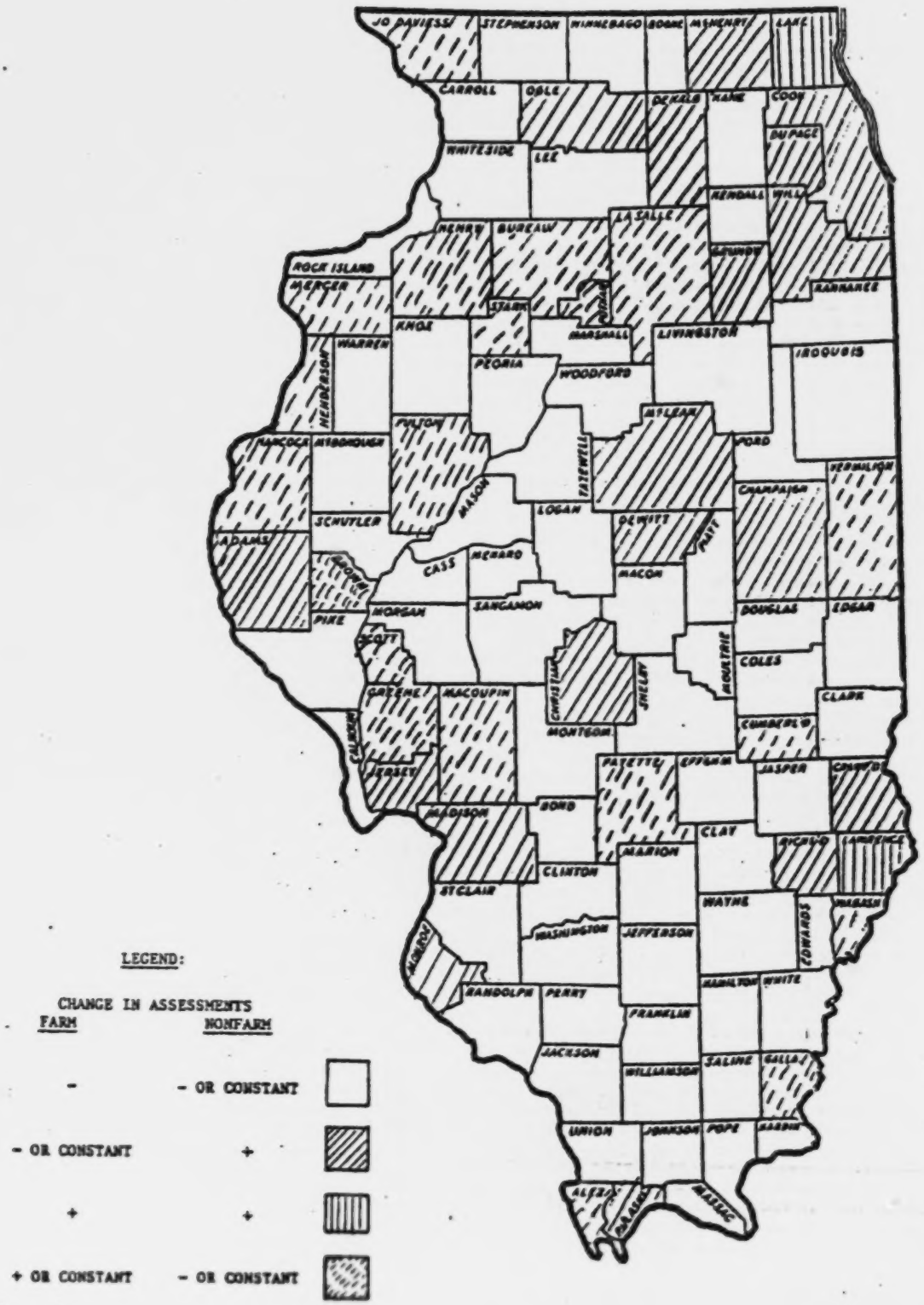
Map 4. ESTIMATED CHANGE IN FARM AND NONFARM REAL ESTATE ASSESSMENTS, 1984 - 1985.



LEGEND:

CHANGE IN ASSESSMENTS FARM	NONFARM	
-	- OR CONSTANT	
- OR CONSTANT	+	
+	+	
+ OR CONSTANT	- OR CONSTANT	

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Table 4. Estimated Changes in General School Aid 1985-86 to 1988-89 with Constant Foundation Level*

	1985-86 GSA Share	1986-87 Share	1986-87 % Change	1987-88 Share	1987-88 % Change	1988-89 Share	1988-89 % Change	GSA Change 1985-86 to 1988-89
Selected Downstate Cities								(millions)
Manufacturing Cities:								
Rockford (205)	1.63%	1.68%	3.10%	1.74%	2.90%	1.79%	1.79%	$2.19
Kankakee (111)	.48	.49	1.78	.50	1.68	.51	1.03	.37
Decatur (61)	1.01	1.04	3.22	1.08	2.26	1.10	1.42	1.20
Peoria (150)	1.05	1.12	6.17	1.17	3.64	1.21	2.53	2.28
Moline (40)	.36	.37	4.91	.39	4.53	.41	2.76	.77
Rock Island (41)	.38	.39	4.17	.41	3.87	.43	2.37	.69
Danville (118)	.51	.52	1.75	.53	1.17	.54	.48	.30
Service Cities:								
Champaign (4)	.16	.15	-6.79	.14	-8.01	.13	-10.79	-.67
Urbana (116)	.18	.17	-2.81	.17	-3.05	.17	-4.22	-.30
Carbondale H.S.(165)	.06	.06	.93	.06	.83	.06	.73	-.03
Alton (110)	.52	.51	-1.98	.51	-1.31	.51	-1.40	.37
Normal (5)	.21	.22	1.84	.21	-1.65	.20	-5.13	-.18
Bloomington (87)	.08	.08	-.87	.08	-.87	.08	-1.75	-.05
Belleville H.S.(201)	.22	.22	0.36	.22	.19	.23	0.0	.02
Springfield (186)	.51	.52	2.50	.53	.09	.53	-.04	.22
All Large Down-State Cities	12.11	12.32	1.67	12.55	1.10	12.76	.46	6.63
Other Down-State	29.42	30.59	3.91	31.48	2.13	32.00	.41	32.41
Chicago Area								
City of Chicago	33.39	32.45	-2.87	31.69	-3.08	31.28	-2.48	-45.97
other Cook County	11.05	10.76	-2.69	10.54	-2.81	10.37	-2.79	-14.98
DuPage	2.71	2.53	-6.73	2.38	-6.83	2.25	-6.73	-8.66
Kane	3.67	3.84	4.58	3.96	2.30	4.01	-.04	4.29
Lake	3.04	2.97	-2.28	2.89	-3.58	2.85	-2.43	-4.13
McHenry	1.09	1.07	-1.53	1.06	-1.76	1.05	-2.17	-.99
Will	3.48	3.43	-1.38	3.41	-1.32	3.39	-1.72	-2.55
Chicago Metro	58.46	57.08	-2.41	55.96	-2.73	55.23	-2.49	-72.98
Total Downstate	41.53	42.81	3.25	44.03	1.86	44.76	.42	39.04
% Change in GSA			-.05		-.77		-1.21	

* Assumes foundation level of $1,951.94 per pupil.

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Table 3. Estimated Changes in General School Aid 1985-86 to 1988-89 with Constant State GSA Appropriations*

	1985-86 GSA Share	1986-87 Share	1986-87 % Change	1987-88 Share	1987-88 % Change	1988-89 Share	1988-89 % Change
Selected Downstate Cities							
Manufacturing Cities:							
Rockford (205)	1.63%	1.68%	3.15%	1.74%	3.70%	1.79%	3.00%
Kankakee (111)	.48	.49	1.82	.50	2.27	.51	1.95
Decatur (61)	1.01	1.04	3.27	1.07	2.95	1.10	2.45
Peoria (150)	1.05	1.12	6.22	1.17	4.42	1.21	3.68
Moline (40)	.36	.37	4.98	.40	5.54	.41	4.24
Rock Island (41)	.38	.39	4.25	.41	4.80	.43	3.75
Danville (118)	.51	.52	1.80	.53	1.84	.54	1.52
Service Cities:							
Champaign (4)	.16	.15	-6.93	.14	-5.62	.13	-6.98
Urbana (116)	.18	.17	-2.79	.17	-1.92	.17	-2.30
Carbondale H.S.(165)	.06	.06	1.01	.06	1.82	.06	1.97
Alton (110)	.52	.51	-1.93	.51	-.56	.51	-1.96
Normal (5)	.21	.22	1.69	.21	-.35	.21	-3.01
Bloomington (87)	.08	.08	-.82	.08	-.14	.08	-.58
Belleville H.S. (201)	.22	.22	.42	.22	.41	.23	1.53
Springfield (186)	.51	.52	2.59	.53	1.39	.54	3.17
All Large Down-State Cities	12.11	12.32	1.72	12.55	1.86	12.75	1.63
Other Down-State	29.42	30.59	3.96	31.46	2.87	31.95	1.55
Chicago Area							
City of Chicago	33.39	32.44	-2.83	31.67	-4.03	31.25	-1.33
other Cook County	11.05	10.76	-2.63	10.56	-1.88	10.41	-1.39
DuPage	2.71	2.53	-6.64	2.39	-5.60	2.28	-4.81
Kane	3.67	3.84	4.64	3.96	3.06	4.00	1.13
Lake	3.04	2.97	-2.22	2.89	-2.75	2.86	-1.06
McHenry	1.09	1.07	-1.46	1.06	-.67	1.06	-.41
Will	3.48	3.43	-1.33	3.41	-.56	3.39	-.50
Chicago Metro	58.46	57.08	-2.35	55.98	-1.95	55.28	-1.24
Total Downstate	41.53	42.91	3.31	44.01	2.58	44.70	1.57
Foundation Level	$1951.94	$1952.45		$1959.75		$1971.28	

* Assumes an appropriation level of $1,679,953,253 for GSA

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Table 5. Estimated Change in General State Aid, by Region, with Constant Appropriations 1985-86 to 1988-89*

Region	School Year 1985-86 to 1986-87	1986-87 to 1987-88	1987-88 to 1988-89	Cumulative Redistribution 1985-86 to 1988-89
		(million $s)		
Chicago	-15.86	-12.98	-7.10	-35.94
other Chicago Metro	-7.24	-5.64	-4.53	-17.41
Total Chicago Metro	-23.10	-18.62	-11.63	-53.35
Downstate Cities	3.50	3.90	3.43	10.83
Other Downstate	19.59	14.72	8.20	42.51
Total Downstate	23.10	18.62	11.63	53.35

* Assumes an appropriation level of $1,679,953,253 for GSA.

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